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*News Release*

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TORONTO, November 9, 1976 --- Governments arrive at annual expenditure budgets by "a series of games" in which the players each follow different rules, according to Douglas G. Hartle, a former Deputy Secretary of the Treasury Board and author of a research study released today by the Ontario Economic Council.

In A Theory of the Expenditure Budgetary Process, Hartle, now a professor of economics at the University of Toronto, says: "Four distinct games can be differentiated: the political game, the bureaucratic game, the special interest group game, and the media game." Each game has its own set of rules under which the individuals and teams operate. These rules determine the basis on which players are selected and teams are admitted to the particular game. The rules also specify which actions score points and which are subject to penalties.

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Prof. Hartle maintains that complex relationships exist among players of the same teams, among the various teams in the same game, and among the several games. These relationships involve "positive" exchanges, such as the voluntary exchange of one advantage for another, or "negative" exchanges, such as obtaining an advantage for not imposing a disadvantage. Negative exchanges (blackmail) are voluntary only in the sense that the 'victim' would rather surrender the advantage than bear the disadvantage but would, of course, prefer neither.

Politicians are influenced in their decisions by, among other things, the knowledge that favors exchanged among politicians create binding obligations and that advancement within the party is dependent upon re-election.

Bureaucrats are not committed to particular parties or ministers, but to the maintenance and strengthening of the bureaucracy and their position therein. They exchange support of their ministers in the political system for ministerial support in the bureaucratic system.

As Prof. Hartle sees it, decision-makers seek to maximize self-interest. As a result, short-term solutions are often adopted for long-term problems. Thus the ultimate interest of the voter is often sacrificed to such immediate goals as re-election (for the politician), self-advancement (for the bureaucrat), or headlines (for the journalist).

The loser in this game is frequently the voter who, unless his self-interest is perceptively threatened, is indifferent.





Leaders of special interest groups are often not effective bargainers with either politicians or the bureaucracy, because they are attempting to present a united front for what is often actually a diversified group. Thus their demands are often more ritualistic than real. (Example: Canadian Labour Congress; Canadian Manufacturers Association).

"The most successful journalist is likely one who simplifies, condenses, and uncovers issues that are sensational but not necessarily significant," says Hartle. "Journalists work for companies whose profits depend upon advertising revenues, which in turn depend upon their circulation." The owners reward journalists in accordance with their ability to increase the audience, hence advertising revenue and profits.

Most voters play a passive role in budgetary bargaining because the costs of obtaining information and exercising influence are too high. Hartle believes voters balance the costs of making more informed decisions against the hoped-for additional benefits. Politicians therefore concentrate benefits on swing voters in swing ridings in the hope of winning new votes at the least cost to themselves.

Prof. Hartle claims that conventional theories about the budgetary process are "elegant but empty abstractions" because they do not recognize the existence of conflicting interest groups. "Economists supporting the self-interest group theory have the most insightful things to say about the budgetary process," he says. Hartle is convinced that these economists are on the verge of making some vital conclusions about political decision-making in general, and the budgetary process in particular.





Hartle concludes his report by stating a series of propositions which he suggests could be tested by case studies. The first of these is currently being written in collaboration with Simon Reisman, a former Deputy Minister of Finance. It will describe the actual process by which federal budgets were formulated between 1969 and 1975.



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A THEORY OF THE EXPENDITURE BUDGETARY PROCESS - by D. G. Hartle

SELECTED QUOTATIONS

"Budgetary decisions are necessarily founded on partial ignorance and will, implicitly if not explicitly, coerce some of the electorate. There are always losers, at least in the sense that the expectations of some individuals are disappointed. The existence of generally accepted rules governing the process legitimize the decisions that emerge from it. These rules ensure that most of those whose interests are affected have their day in court and an opportunity to exercise their bargaining power in a legitimate manner." (Page 68)

"The mystique that politicians serve 'the public interest' rather than their own may be an ideological solution to the dangers inherent in the adoption of majority rather than unanimity rule. While concern about the coercion of minorities is undoubtedly warranted, some of the public's views of politicians and politics are dangerously romantic." (Page 70)

"With rare exceptions, career bureaucrats are not committed to particular parties or ministers but to the maintenance and strengthening of the bureaucracy and of their positions within it. Ministers who support their senior officials within the bureaucratic system can expect bureaucratic support in the political system, and conversely. This means, in effect, that ministers must accept the incentive system within which the bureaucrat works and not demand that he behave in ways that would damage his current or potential position in the bureaucracy." (Page 71)



"Political institutions in general, and the budgetary process in particular, can be looked upon as the means that have slowly evolved of coping with two inescapable aspects of the human condition: limited knowledge, time, and effort; and the fact that many of the interests of individuals are in direct conflict, in the sense that most individuals most of the time seek to increase their own utility even if this means forcing a reduction in the utility of other individuals. Politics is a way of producing, in a reasonably orderly and timely manner, decisions that necessarily involve conflicts among individuals and groups of individuals in the face of differences of opinion about standards and facts that can never be completely resolved." (Page 78)

"...the traditional budgetary process is carried out with surprisingly little 'hard' information other than the dollar figures themselves, which on analysis turn out to be based on soft information. Cabinet policy decisions are usually based either on no documentation or on documentation of a persuasive and rhetorical rather than analytical nature. This is not surprising, given that it is an adversarial situation. Here too, proof is impossible because of secrecy provisions." (Page 82)

"There is a strange reluctance of politicians to admit, and of officials to acknowledge, that most policies most of the time are based on ministerial perceptions of their likely direct or indirect electoral impact. The more successful senior public servants are undoubtedly well aware of this precept and act accordingly." (Page 84)





"The problem is, of course, that informing the public so that it becomes more demanding requires access to information that it is not in the interest of the government of the day, or of the bureaucracy, to disclose. Those interest groups who perceive that they are 'winning' under current policies and processes are not motivated to press for change. The 'losers' often do not know what information to ask for, or can be brushed off with the statement that a report was prepared for the advice of ministers and is hence 'confidential.' It is not in the interest of most voters to make the investment necessary to determine precisely the extent to which particular programs serve their interest! Journalists have little incentive to do the time-consuming work necessary to be able to ask the right questions, much less to try to find the answers to them." (Page 85)

"The greater the political power of the prime minister or the minister of finance relative to other ministers, the more slowly expenditures will rise." (Page 94)

"Government reorganizations will increase the expenditures on the affected programs." (Page 95)

"Ministers require a number of expenditure programs that can be used to provide benefits on a highly discretionary basis to different groups of voters (the pork barrel). Because pork barrelling is not acceptable to voters who are not benefiting, new programs have to be created which have legitimacy for a time, and old programs of this type will be allowed to languish." (Page 95)





"Expenditures on programs financed on a shared-cost basis will grow more rapidly than similar programs financed by one level of government. In part this is attributable to the alliances that arise between senior officials in the two levels of government responsible for the same field." (Page 95)

"Contrary to some bureaucratic theories, under the parliamentary system the most prestigious employments are in departments with relatively small budgets. The deputy heads of these agencies do not want to maximize their budgets; they want to maximize their power and influence. They fight about their own budgets only to the extent that it affects the quantity and quality of their staff advisers relative to others with whom they compete." (Page 95)

"Many of the changes in the relative shares of the ever-growing cash flow devoted to existing programs probably can be explained by 'errors'. New statutory programs are adopted or old programs revised with little understanding by the cabinet of the long-term cost implications - except by those who are advocating them. Having pushed the legislation through, it is extremely difficult to control the escalation of costs because to do so would be an admission of error. The result is that other programs are squeezed, at least relatively." (Page 95)



"Journalists have even shorter time horizons than politicians. They need a story every hour, every day, every week, or every month, depending upon their medium. This makes them appear more unscrupulous, for the costs of betrayal are distant, while the payoffs from a 'scoop' are immediate. It also makes most of them unable to invest in the acquisition of detailed knowledge about technical subjects. The result is that sensational trivia have enormous importance for the politician. Ideas that cannot be explained simply and briefly are virtually valueless." (Page 72)

"Because of the short time-horizon of ministers - they require a payoff before the next election - senior public servants are sorely tempted to propose short-term solutions to long-term problems. The public servant who is successful in devising and selling a facile 'solution' will strive to move to another post before the limitations of his solution become obvious. If this stratagem works, the failure will appear to be the incompetence of his successor." (Page 74)





A THEORY OF THE EXPENDITURE BUDGETARY PROCESS

A research study commissioned by the Ontario Economic Council.

ABOUT THE AUTHOR:

Douglas G. Hartle is Professor of Economics, Institute for Policy Analysis, University of Toronto. A native of Manitoba, he received his B.A. from Carleton University and M.A. and Ph.D. in Economics from Duke University.

Professor Hartle's public service record includes Deputy Secretary of the Treasury Board, Director of Research for the Royal Commission on Taxation (Carter Commission), and advisor to federal and provincial departments, commissions and crown corporations. He is currently an advisor to the Auditor General of Canada.

During the 1976-77 academic year, Professor Hartle is on sabbatical from the University of Toronto and has recently been appointed as a Research Associate with the Ontario Economic Council.





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A THEORY OF THE EXPENDITURE BUDGETARY PROCESS

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